

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 OMB-01 IGA-02 EB-11 COME-00

TRSE-00 CIAE-00 INR-11 NSAE-00 RSC-01 L-03 SWF-02

SIL-01 LAB-06 PM-07 NSC-07 SP-03 SS-20 PA-04 USIA-15

PRS-01 SAM-01 SSO-00 NSCE-00 DRC-01 /157 W

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R 011658Z AUG 74

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 9311

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION USUN NEW YORK

USMISSION NATO BRUSSELS

USEUCOM

USCINCEUR

USDOCOSOUTH

DIA WASHDC DI-5

C O N F I D E N T I A L NICOSIA 2079

E.O. 11652: GDS

TAGS: PINT CY EAID

SUBJECT: FINANCE MINISTER ON CYPRUS SITUATION

1. PATSALIDES, MAKARIOS' FINANCE MINISTER, IS CONTINUING TO ACT FOR CLERIDES IN THE SAME CAPACITY, WITH THE UNDERSTANDING THAT HIS FORMAL STATUS WILL BE LEFT UNCLEAR.

2. PATSALIDES SHARED THE VIEWS WHICH WE ARE FINDING WITH REMARKABLE UNIFORMITY AMONG CENTRIST LEADERS: CLERIDES IS INDISPENSIBLE, HE IS PERSONALLY OK, BUT HE HAS THE POWER AND SHOULD BE ABLE TO MAKE HIS OWN MINISTERIAL APPOINTMENTS WITHOUT BEING CONTROLLED BY THE EXTREME RIGHT.

3. PATSALIDES' NATURAL CONCERN WAS WITH THE ECONOMY, AND WITH
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THE QUESTION AS TO WHETHER US AID COULD BE OBTAINED. HE SAID

RESERVES WERE STILL ABOUT CYPRUS POUNDS 100 MILLION, BUT DROPPING. HE AGREED WITH DCM THAT PHYSICAL DAMAGE RELATIVELY MINOR. HIS PRINCIPAL CONCERNS WERE GOVERNMENT REVENUES, POSSIBLE CHAIN WAVE OF BANKRUPTCIES, AND UNEMPLOYMENT PROBLEMS.

4. HE SAID PRIMARY NEED FOR FOREIGN AID WAS AS SOURCE OF BUDGETARY REVENUES. DCM REMINDED HIM THAT TRANSLATION OF FIREIGN AID INTO SUCH REVENUES USUALLY REQUIRES CONVERSION BY MEANS OF COMMODITY IMPORTS AND SALES TO CYPRIOTS, THAT CYPRUS STILL HAS ENOUGH FOREIGN EXCHANGE RESERVES TO GIVE IT BREATHING SPACE FOR ADJUSTMENT OF ITS FOREIGN ACCOUNT, AND THAT RESULT OF SUCH AN IMPORT PROGRAM MIGHT BE TO SUSTAIN A LEVEL OF CONSUMPTION WHICH CYPRUS ON ITS OWN CANNOT NOW AFFORD. HE ASKED PATSALIDES WHAT PROPOSALS WERE BEING MADE FOR INCREASED DOMESTIC GENERATION OF REVENUE. (GO CYPRUS IS ALMOST TOTALLY DEPENDENT AT PRESENT ON CUSTOMS DUTIES, EXCISE TAXES, FEES AND VARIOUS CHARGES TOWARDS REVENUE; DIRECT TAXES ACCOUNT FOR ONLY 16 PERCENT OF ITS REVENUE.) PATSALIDES SAID HE HAD JUST CHAIRED A MEETING ON THIS SUBJECT,

THAT NO DECISIONS HAVE BEEN TAKEN, BUT OF COURSE IT IS PARTICULARLY DIFFICULT TO TAP NEW INCOME SOURCES IN A CRISIS SUCH AS THIS.

5. DCM DESCRIBED STRINGENCY IN USAID PROGRMS, SAID HE THOUGHT USG WOULD LOOK TO EUROPE AND TO IMF TO CARRY INITIAL RESPONSIBILITY FOR CYPRUS AID, PARTICULARLY IN VIEW OF CYPRUS' CLOSE RELATIONS WITH EC. IF HE SENT IN PRPOSAL FOR US AID TO CYPRUS AT THIS STAGE, HE WAS SURE QUESTIONS WOULD IMMEDIATELY COME BACK: "WHAT IS EC DOING? WHAT DOES IMF THINK OF CYPRUS POSITION?" SUGGESTED

THAT MINISTRY DEVELOP PROJECTIONS AND OUTLINE OF MEASURES GO CYPRUS PLAN TO TAKE, MAKE INITIAL CONTACT WITH IMF, AND KEEP US INFORMED. NOTED THAT WE ARE PROVIDING EMERGENCY ASSISTANCE ALREADY, THAT A SUBSTANTIAL SLICE OF IBRD HELP IS ALREADY US FUNDS, AND THAT WE WOULD UNDOUBTEDLY CONTINUE TO HELP WITH SPECIFIC PROJECTS SUCH AS WFP. DID NOT WANT TO RAISE FALSE HOPE AS TO USG WILLINGNESS TO HELP OUT ON DIRECT BUDGETARY SUPPORT PROGRAM.

6. ON DANGER OF BANKRUPTCIES, PATSLAIDES AGREED THAT CYPRUS WAS ALREADY FACING A COLLAPSE OF SUSTAINED BUILDING AND LAND BOOM BEFORE COUP. WHILE RECOGNIZING THAT ANY SALVAGE OPERATION
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WOULD REQUIRE SUBSTANTIAL LOWERING OF BANKS' MARGIN REQUIREMENTS, HE ALREADY HAS IN MOTION PLANS TO RESCUE WORST-HIT DEBTORS.

7. AS TO HOW TO MEET UNEMPLOYMENT, PATSALIDES' FIRST MENTIONED HOPES FOR EXPANDED EMPLOYMENT IN HOTEL INDUSTRY. WHEN DCM REMINDED HIM THAT PRINCIPAL IMMEDIATE IMPACT OF CRISIS MIGHT BE LOSS OF TOURIST REVENUES, AND THAT SURPLUS HOTEL CAPACITY ALREADY EXISTED, PATSALIDES AGREED, SAND WOULD TRY TO

ABSORB SOME LABOR PO PUBLIC WORKS PROJECTS. SALVAGE OPERATIONS DESCRIBED PARA ABOVE WOULD ALSO EASE UNEMPLOYMENT PROBLEM, SINCE THEY WOULD PERMIT COMPLETION OF A NUMBER OF HALF FINISHED BUILDINGS (CONSTRUCTION IS A KEY ELEMENT IN LOCAL EMPLOYMENT SCENE.)

8. FINANCE MINISTER ADMITTED THAT HIS MINISTRY WAS JUST BEGINNING TO WRESTLE WITH HARD FACTS OF NEW SITUATION, THAT REGRESSION IN STANDARD OF LIVING AND SOME MOVE TOWARD MORE EGALITARIAN TAXATION POLICIES MAY BE NECESSARY.

9. COMMENT: WITH THE COUP GROUP STILL TALKING ONLY TO ITSELF, CLERIDES ALONE AND IN NO REGULAR CONTACT WITH HIS "SAMPSON CABINET", THE GOVERNMENT OF CYPRUS HARDLY EXISTS. PATSALIDES IS WORKING IN SOMETHING OF A VACUUM, AND THE NATURAL INCLINATION IS TO FIND OUT WHO WILL HELP THEM. WE THINK HE RECOGNIZES THAT CYPRUS IS IN FOR SOME FUNDAMENTAL READJUSTMENTS. HOWEVER, WITH THE PHYSICAL PLANT IN GOOD SHAPE AND MOST COMMODITY EXPORT PRODUCING AREAS UNDER GREEK CONTROL, THE MOST SERIOUS PROBLEMS WILL BE A DECLINE IN THE INVISIBLES WHICH HAVE SUSTAINED CYPRIOT CONSUMPTION AT ITS CURRENT HIGH LEVEL, PLUS A LOSS OF CONFIDENCE. CYPRUS HAS SUFFICIENT EXCHANGE RESERVES TO GIVE IT TIME FOR READJUSTMENTS. WE THINK THAT THE GOVERNMENT SHOULD FACE ITS PROBLEM AND MAKE SOME HARD DECISIONS BEFORE SERIOUS CONSIDERATION IS GIVEN TO EXTERNAL AID.
DAVIES

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